**Macro-**

1. **Developed During 1930s primarily result of the Depression**
   * 1. **Prior largely believed in Say’s law-🡪 Supply-> creates Demand-> Supply and Demand meet- Laissez Faire**
     2. **1930s, Developed GDP national income accounting, measuring economy,**
     3. **Role of Government, Consumer (in the Aggregate) and Business.**
   1. **Why do we measure the economy?**
      1. **Provide some context and understanding whether life Is improving or not.**
      2. **Methods---GDP and others (Quality of Life???)**
         1. **GDP became generally accepted, used worldwide, more divorced from subjective views of what’s important**
         2. **Expenditure v. Revenue Approach**
         3. **Expenditure- C+I+ G+ (x-m), Revenue---All income added up**
            1. **Expenditure method is most focused upon**

**Avoid double counting – only final goods incorporated- NO used goods (Ebay sales don’t count!)**

**Excludes “purely financial transactions”- SSI, Gifts, Stock market**

**Has to be a recorded transation**

* + - * 1. **Understates**

**Black markets etc..**

**Improvements in quality of goods etc…**

**Shorter workdays**

* + - * 1. **Overstates**

**Doesn’t properly address 🡪pollution (spillover costs/negative externalities)**

**Financial expenditures that arguably make no one better off---catastrophes->clean up, mom’s working and getting childcare etc…**

* + - * 1. **Look at indicators on BUR. ECON ANALYSIS---LOTS OF THE #S ARE THERE**

**Consumption- Services/Goods/Durable non-Durable---relatively stable component (65-70% GDP)**

**Gross Private domestic Investment- NOT STOCK but implements to make goods Construction and inventory**

**Gross Investment—not disgusting but Gross=Total ,**

**Net Investment subtracts Depreciation**

**Govt. Purchases—not transfers of income but actual expenditures**

**National, State and Local**

**Net Exports**

**Purchase goods and services within our borders-regardless of who buys it.**

* + - * 1. **Other Accounting Figures, ie. Net Domestic Product et. Al., are subsets of GDP**

**Personal Income—what comes to your pocket (will include govt. transfer payments)**

**Disposable Income—after tax income**

**Review Circular Flow, p. 489**

* + - 1. **Apples v. Apples---REAL GDP**
         1. **REAL =inflation/deflation adjusted**

**Price index**

**Basket of Goods in base year**

**Basket of Goods in “x” year**

**REAL GDP= Nominal GDP/Price Index**

**Price index is above 1 if inflation is occurring, below 1 if deflation**

**ALWAYS COMPARE W/REAL GDP**

* 1. **ECON GROWTH**
     1. **REMEMBER NORMATIVE V. POSITIVE ANALYSIS**
        1. **GOAL IMPROVE PEOPLE’S STANDARD OF LIVING-> INCREASED HAPPINESS**
           1. **Real Per Capita GDP**

**Limits –it’s an average—so does not address income inequality—if 5% of the people are getting 200% of the improvement than the average person is not better off**

* + - * 1. **How to measure rate of doubling--simply rule of 70s (or 72)**
        2. **See table on p. 25.1—**
        3. **See table on 503 25.2, comparing per capita GDP of different countries**
        4. **What seems to promote growth**

**Stability**

**Property Rights- real and other (personal and intellectual)**

**Efficient Financial institutions- and liquidity**

**Education and literacy**

**Free Trade**

**Competition**

**How to Expand the PPC-**

**“entrepeneurship”**

**Improving productivity**

**US has high labor costs but also high level s of productivity**

**See table p508 25.3**

**Technology**

**Infrastructure**

**Human Capital**

**Improving Resource Allocation**

**Why the significant growth 1995-2007?**

**Productivity 2.7% average**

**Free Trade (NAFTA et. Al)**

**Computers et. Al.**

**MY ARGUMENT---IT WAS ILLUSORY---BUILT ON A BUBBLE! *Much of our economy today is service sector as well🡪 difficult to assess productivity increases***

1. **Bumps and Obstacles on the way**
   1. **Business Cycles**
      1. **Peak/Troughs**
      2. **Natural?**
      3. **Recessionary periods? Periods of Recession**
      4. **Definition of Recession- today by group of economists-**
   2. **Unemployment--- video**
      1. **Def. Created in Mass in the 1920s/30s**
      2. **Labor Force**
      3. **Frictional/Structural/Cyclical—**
         1. **Frictional- Always occurs—job matches sometimes take time**
         2. **Structural- Fundamental and integral changes cause some people to be underemployed etc..**
         3. **Cyclical—Refers to business cycle**
      4. **What does it include? What doesn’t**
         1. **Overstate/Understate**
      5. **How can full employment include unemployment- *FE is generally considered 4 to 5%***
   3. **GDP Gap and Okun’s Law**
      1. **Potential GDP (full employment)**
      2. **How can you have more than full employment see table p. 527 26.3**
      3. **Every 1% of unemployment costs-2% loss of GDP ( *some say Okun’s law is loss of 2.5% GDP)***
      4. **Who gets hit by unemployment?**
      5. **Why does Europe have so much higher rates of unemployment?**
   4. **Inflation**
      1. **CPI Market baskets of goods**
      2. **PPI-Producer Price Index-wholesale**
      3. **Core CPI- excludes volatile Energy and Food prices**
      4. **Demand Pull- Most common-**
      5. **Cost-Push—1970s---Worse---since causes real output to decrease- RESOURCE PRICE INFLATION**
      6. **Who gets helped? Who gets hurt? And what’s a COLA?**
      7. **Can inflation cause inflation?**
      8. **Real interest rates and nominal interest rates--🡪 Late 1970s variable interest rates developed**
      9. **Hyperinflation-**